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Office of the Legislative Auditor

State of Montana

Report to the Legislature

January 1995

Financial-Compliance Audit

For the Fiscal Year Ended June 30, 1994

The University of Montana - Missoula

We issued an unqualified opinion on the financial statements of The University of Montana - Missoula and our report contains no recommendations.

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Financial-compliance audits are conducted by the Office of the Legislative Auditor to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations which could have a significant financial impact. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act of 1984 and OMB Circular A-128 require the auditor to issue certain financial, internal control, and compliance reports regarding the state's federal financial assistance programs, including all findings of noncompliance and questioned costs. This individual agency audit report is not intended to comply with the Single Audit Act of 1984 or OMB Circular A-128 and is therefore not intended for distribution to federal grantor agencies. The Office of the Legislative Auditor issues a statewide biennial Single Audit Report which complies with the reporting requirements listed above. The Single Audit Report for the two fiscal years ended June 30, 1993 has been issued. Copies of the Single Audit Report can be obtained by contacting:

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STATE OF MONTANA

Office of the Legislative Auditor

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MARY BRYSON
Operations and EDP Audit

JAMES GILLETT
Financial-Compliance Audit

JIM PELLEGRINI
Performance Audit

January 1995

The Legislative Audit Committee
of the Montana State Legislature:

This report is the result of our audit of The University of Montana - Missoula for fiscal year 1993-94. The scope of this audit excludes the other campuses that The University of Montana - Missoula oversees. These campuses are audited separately. The report contains no recommendations. The Financial Compliance Audit was performed at the request of The University of Montana and was limited to one year of university operations to place all campuses of The University of Montana created under university system restructuring on the same audit cycle.

We wish to express our appreciation to The University of Montana - Missoula president and staff for their cooperation and assistance.

Respectfully submitted,

Scott A. Seacat
Legislative Auditor

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Office of the Legislative Auditor

Financial-Compliance Audit
For the Fiscal Year Ended June 30, 1994

The University of Montana - Missoula

Members of the audit staff involved in this audit were: Laurie Evans, Renee Foster, Geralyn Hoffman, Wayne Kedish, Victoria Murphy, and Vickie Rauser.

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Appointed and Administrative Officials

Board of Regents of Higher Education

Marc Racicot, Governor*

Nancy Keenan, Superintendent of Public Instruction*

Jeff D. Baker, Commissioner of Higher Education*

		Term Expires
Jim Kaze, Chairman	Havre	1999
Cordell Johnson, Vice Chairman	Helena	1996
Kermit R. Schwanke	Missoula	1997
Paul Boylan	Bozeman	1998
Patrick P. Davison	Billings	2000
L. Colleen Conroy	Hardin	2001
Jim Brown, Student Regent	Bozeman	1995

*Ex officio members

Commissioner of Higher Education

Jeff D. Baker	Commissioner of Higher Education
David L. Toppen	Executive Associate Commissioner for Higher Education
Rod Sundsted	Associate Commissioner for Fiscal Affairs
Laurie O. Neils	Director of Budget and Accounting

The University of Montana

George M. Dennison	President
Robert Kindrick	Provost/Vice President for Academic Affairs
James E. Todd	Vice President for Administration and Finance
Raymond C. Murray	Associate Provost for Research and Economic Development/Dean Graduate School
David Aronofsky	Legal Counsel
Barbara Hollmann	Dean of Students

Introduction

Introduction

We performed a financial-compliance audit of The University of Montana - Missoula for the fiscal year ended June 30, 1994. Each campus that is administratively attached to The University of Montana - Missoula is audited separately and not included in the scope of this audit.

The scope of this audit was limited to fiscal year 1993-94 for the purpose of moving the university to the even year biennial audit cycle. This move was made at the request of the University of Montana-Missoula management to align all University of Montana campuses to the same two year audit schedule.

Because we issued our previous financial-compliance audit for the two fiscal years ended June 30, 1993, in April 1994, we limited our compliance testing to state and federal compliance issues which could have a material impact on the university's financial statements. We performed the audit in accordance with the requirements of the Single Audit Act of 1984 and the Office of Management and Budget Circular A-128, except for the reporting requirements which will be addressed in our Single Audit report for the two fiscal years ended June 30, 1995. We completed specific audit tests related to federal financial assistance programs.

The objectives of our audit were to determine if:

1. The financial statements of the university present fairly its financial position and results of operations for the fiscal year ending June 30, 1994.

2. The university complied with state and federal laws and regulations which could have a material effect on the financial statements.

Background

The University of Montana received its charter in February 1893. The statutory authority for the university is contained in section 20-25-205, MCA. Supervision and control of the university is vested with the State Board of Regents of Higher Education. The university president and staff direct day-to-day operations.

Introduction

In January 1994, the Montana Board of Regents of Higher Education approved the restructuring of the Montana University System. As part of the restructuring, The University of Montana became The University of Montana - Missoula. As of July 1, 1994, the university has administrative oversight for five additional campuses:

New Campus Name
Western Montana College of The University of Montana
Montana Tech of the University of Montana
Division of Technology Montana Tech of The University of Montana
Helena College of Technology of The University of Montana
College of Technology The University of Montana - Missoula.

Formerly Named
Western Montana College
Montana College of Mineral Science and Technology
Butte Vocational-Technical Center
Helena Vocational-Technical Center
Missoula Vocational-Technical Center

Section 20-25-205, MCA, specifies that the university "shall have for its purpose instruction in all departments of science, in literature, in the arts, and in industrial and professional education." The university is a comprehensive undergraduate, graduate, research and public service institution with a college of arts and sciences and schools of business administration, fine arts, forestry, education, journalism, pharmacy and allied health sciences, and law. Programs at the graduate and professional levels are rooted in the broadly based undergraduate programs in the liberal arts and sciences.

The university is financed primarily by state appropriations, student fees, and auxiliary enterprises such as residence halls, food services, and the student union.

Prior Audit Recommendations

Prior Audit Recommendations

Our prior audit, for the two fiscal years ended June 30, 1993, contained 16 recommendations to the university. Since the audit was issued in April of 1994 and we performed the majority of the current audit work in May and June of 1994, we limited our testing to the six recommendations that could have a material impact on the financial statements to determine if the university had implemented them. The university implemented three and partially implemented three. The three recommendations partially implemented related to library books, classification issues, and the Grizzly Athletic Association. We determined the recommendations were partially implemented as follows:

-- We recommended the university establish procedures to ensure that library books recorded on the property records are fairly stated at the end of each fiscal year. The university adjusted the financial statements for estimated additions. The computer system that will provide them with accurate information is still in the development stage.

-- We recommended the university record revenues, expenditures and student loan activity properly on the Statewide Budgeting and Accounting System. The university performed the steps necessary to correct the majority of the misclassifications noted. Some of the classification changes could not be made until fiscal year 1994-95.

-- We recommended the university define and clarify the relationship between the university and the Grizzly Athletic Association. The university now has a written agreement with the Grizzly Athletic Association. Additional refinement of the agreement is needed.

We also reviewed the university's representation of its progress on the implementation of the remaining ten recommendations. The university implemented the three recommendations related to cash controls, refunds on meals, and contracted services vs. employees. Implementation of the remaining recommendations is in process, and subject to review during our next audit.

Independent Auditor's Report & University Financial Statements

STATE OF MONTANA

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Financial-Compliance Audit

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Performance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Balance Sheet of The University of Montana - Missoula as of June 30, 1994, and the related Statements of Changes in Fund Balance and the Statements of Current Funds Revenues, Expenditures, and Other Changes for the fiscal year then ended. The information contained in these financial statements is the responsibility of the university's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The University of Montana - Missoula as of June 30, 1994, and the changes in fund balance and the current funds revenues, expenditures, and other changes for the fiscal year then ended in conformity with generally accepted accounting principles.

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

October 31, 1994

BALANCE SHEET
June 30, 1994

	Current Funds			
	Unrestricted			
	General Operating	Designated	Auxiliary Enterprises	Restricted
ASSETS				
Cash and Cash Equivalents	$ 3,768,543	$ 5,837,767	$ 2,991,444	$ 372,588
Investments				
Accounts Receivable, Net of Allowance	193,880	125,646	76,544	4,295,684
Interest Receivable				122
Inventories	6,000	599,359	391,062	
Prepaid Expenses and Deferred Charges	1,259,094	382,668	30,204	127,802
Due from Other Fund Groups	2,926,978	947,386	266,751	42,266
Interentity Loans Receivable		1,000,000		
Loans Receivable, Net of Allowance				
Property, Equipment, & Other Assets				
TOTAL ASSETS	$ 8,154,495	$ 8,892,826	$ 3,756,005	$ 4,838,462
LIABILITIES AND FUND BALANCE				
Accounts Payable and Accrued Liabilities	$ 6,183,263	$ 1,415,241	$ 228,959	$ 568,961
Accrued Interest Payable				
Students' Deposits	10,074		258,490	
Due to Other Fund Groups	1,216,574	794,792	594,787	1,389,995
Deferred Revenue	828,694	1,229,670	343,287	
Deposits Held in Custody for Others		2,325		
Current Notes Payable				
Long Term Obligations				
Interentity Loans Payable				1,000,000
Bonds Payable, Net of Discount				
Compensated Leave	5,061,201	1,042,807	679,246	
TOTAL LIABILITIES	$ 13,299,806	$ 4,484,835	$ 2,104,769	$ 2,958,956
Fund Balances	(5,145,311)	4,407,991	1,651,236	1,879,506
TOTAL LIABILITIES AND FUND BALANCE	$ 8,154,495	$ 8,892,826	$ 3,756,005	$ 4,838,462
Fund Balances Consist of:				
Unrestricted –				
General	$ (5,145,311)	$ 4,407,991	$ 1,651,236	
Unexpended				
Renewal and Replacement				
Retirement of Indebtedness				
Restricted –				
U.S. Government Grants Refundable				
General				1,879,506
Net Investment in Plant				
TOTAL FUND BALANCES	$ (5,145,311)	$ 4,407,991	$ 1,651,236	$ 1,879,506

See Summary of Significant Accounting Policies and Notes to Financial Statements.

Student Loan Funds	Endowment Funds	Plant Funds	Agency Funds	Total
$ 519,380	$ 812,977	$ 11,228,336	$ 336,792	$ 25,867,827
	988,726	24,641,047		25,629,773
2,244		139,711	83,784	4,917,493
		3,931,743		3,931,865
				996,421
		974,439	3,318	2,777,525
4,358		509,746	21	4,697,506
				1,000,000
6,383,483			27,532	6,411,015
		152,556,468		152,556,468
$ 6,909,465	$ 1,801,703	$ 193,981,490	$ 451,447	$ 228,785,893

$ 179	$ 5,016	$ 554,903	$ 9,603	$ 8,966,125
		254,005		254,005
				268,564
84,471		551,932	64,955	4,697,506
		76,076		2,477,727
			376,889	379,214
		5,718		5,718
		2,361,046		2,361,046
				1,000,000
		45,378,797		45,378,797
				6,783,254
$ 84,650	$ 5,016	$ 49,182,477	$ 451,447	$ 72,571,956
6,824,815	1,796,687	144,799,013		156,213,937
$ 6,909,465	$ 1,801,703	$ 193,981,490	$ 451,447	$ 228,785,893

$ 55,825				$ 969,741
		$ 2,619,339		2,619,339
		4,533,446		4,533,446
		3,594,178		3,594,178
5,126,097				5,126,097
1,642,893	1,796,687	9,614,564		14,933,650
		124,437,486		124,437,486
$ 6,824,815	$ 1,796,687	$ 144,799,013		$ 156,213,937

STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES AND OTHER CHANGES
Year Ended June 30, 1994

	General Operating	Unrestricted Designated
REVENUES		
Tuition and Fees	$ 23,612,021	$ 3,133,072
State Appropriation	30,663,021	
Federal Grants and Contracts		
State and Local Grants/Contracts		
Private Gifts, Grants and Contracts		
Investment Income		21,678
Sales and Service		5,012,270
Indirect Cost Recoveries		1,665,547
Other Sources	379,686	783,556
TOTAL CURRENT REVENUES	$ 54,654,728	$ 10,616,123
EXPENDITURES AND MANDATORY TRANSFERS		
Educational and General:		
Instruction	$ 29,284,758	$ 1,657,839
Research	1,347,592	2,095,729
Public Service	318,791	857,490
Academic Support	6,778,308	497,498
Student Services	3,999,952	4,642,195
Institutional Support	4,883,638	(568,514)
Operations and Maintenance of Plant	5,858,577	3,279
Scholarships and Fellowships	1,912,788	8,293
EDUCATIONAL AND GENERAL EXPENDITURES	$ 54,384,404	$ 9,193,609
Auxiliary Enterprises Expenditures		7,896
TOTAL EXPENDITURES	$ 54,384,404	$ 9,201,705
MANDATORY TRANSFERS		
Principal and Interest		$ 181,758
Renewals and Replacements		
Other		
TOTAL MANDATORY TRANSFERS		$ 181,758
TOTAL EXPENDITURES, ADJUSTMENTS AND MANDATORY TRANSFERS	$ 54,384,404	$ 9,383,463
OTHER TRANSFERS – ADDITIONS(DEDUCTIONS)		
Restricted Receipts Over (Under) Transfers to Revenue		
Non–Mandatory Transfers	$ (516,117)	$ (708,176)
TOTAL OTHER TRANSFERS – ADDITIONS(DEDUCTIONS)	$ (516,117)	$ (708,176)
NET INCREASE (DECREASE) IN FUND BALANCE	$ (245,793)	$ 524,484

See Summary of Significant Accounting Policies and Notes to Financial Statements.

Auxiliary Enterprises	Restricted	Total
$ 3,365,283		$ 30,110,376
		30,663,021
	$ 17,785,377	17,785,377
	1,374,595	1,374,595
	4,592,172	4,592,172
182,128	89,714	293,520
14,901,843		19,914,113
		1,665,547
56,080	94,695	1,314,017
$ 18,505,334	$ 23,936,553	$ 107,712,738
	$ 4,360,806	$ 35,303,403
	9,648,122	13,091,443
	1,994,029	3,170,310
	1,306,329	8,582,135
	268,995	8,911,142
	26,358	4,341,482
	41,938	5,903,794
	6,198,441	8,119,522
	$ 23,845,018	$ 87,423,231
$ 15,494,198	91,535	15,593,629
$ 15,494,198	$ 23,936,553	$ 103,016,860
$ 402,247		$ 584,005
12,900		12,900
1,964,047		1,964,047
$ 2,379,194		$ 2,560,952
$ 17,873,392	$ 23,936,553	$ 105,577,812
$	$ 3,543	$ 3,543
(293,796)	211,753	(1,306,336)
$ (293,796)	$ 215,296	$ (1,302,793)
$ 338,146	$ 215,296	$ 832,133

STATEMENT OF CHANGES IN FUND BALANCE

Year Ended June 30, 1994

	Current Funds			
	Unrestricted			
	General Operating	Designated	Auxiliary Enterprises	Restricted
REVENUES AND OTHER ADDITIONS				
Unrestricted Current Fund	$ 54,654,728	$ 10,616,123	$ 18,505,334	$
Private Gifts, Grants and Contracts				4,762,185
Government Grants and Contracts				20,659,049
Federal Contributions				
Land Grant Income				
Interest and Recovery on Loans				
Student Fees				
Investment Income				89,714
Bond Proceeds				
Retirement of Indebtedness				
Additions to Plant				
Other				94,695
TOTAL REVENUES AND OTHER ADDITIONS	$ 54,654,728	$ 10,616,123	$ 18,505,334	$ 25,605,643
EXPENDITURES AND OTHER DEDUCTIONS				
Current Funds Expenditures	$ 54,384,404	$ 9,201,705	$ 15,494,198	$ 23,936,553
Indirect Cost Recovered				1,665,547
Loan Cancellations, Collection Costs and Bad Debt Expense				
Expended for Plant Facilities				
Retirement of Indebtedness				
Interest on Indebtedness				
Deletions From Plant				
TOTAL EXPENDITURES AND OTHER DEDUCTIONS	$ 54,384,404	$ 9,201,705	$ 15,494,198	$ 25,602,100
TRANSFERS AMONG FUNDS – ADDITIONS(DEDUCTIONS)				
Mandatory:				
Principal and Interest		$ (181,758)	$ (402,247)	
Renewals and Replacements			(12,900)	
Other			(1,964,047)	
Non–Mandatory	$ (516,117)	(708,176)	(293,796)	$ 211,753
Net Investment in Plant				
TOTAL TRANSFERS – ADDITIONS(DEDUCTIONS)	$ (516,117)	$ (889,934)	$ (2,672,990)	$ 211,753
NET INCREASE(DECREASE) FOR THE YEAR	$ (245,793)	$ 524,484	$ 338,146	$ 215,296
Fund Balance – Beginning of Year	$ (4,749,172)	$ 3,830,304	$ 1,338,580	$ 1,901,253
Prior Year Adjustments	(150,346)	(31,343)	(25,490)	(152,497)
Prior Year Revenue Bonds				
FUND BALANCE – BEGINNING OF YEAR RESTATED	$ (4,899,518)	$ 3,798,961	$ 1,313,090	$ 1,748,756
Residual Equity Transfers		84,546		(84,546)
FUND BALANCE AT END OF YEAR	$ (5,145,311)	$ 4,407,991	$ 1,651,236	$ 1,879,506

See Summary of Significant Accounting Policies and Notes to Financial Statements

		Plant Funds			
Student Loans	Endowment Funds	Unexpended	Renewal & Replacement	Retirement of Indebtedness	Investment In Plant
$ 18,820		$ 721,000	$ 58,100		
			2,329		
279,003					
		185,741			
167,256					
		398,909	595,054	$ 900,719	
18,420	$ 147,509	1,182,857	108,958	204,417	
				21,264,878	
					$ 13,103,402
					7,755,529
44,886			222,609		
$ 528,385	$ 147,509	$ 2,488,507	$ 987,050	$ 22,370,014	$ 20,858,931
$ 161,150					
		$ 1,698,903	$ 2,381,068		
				$ 18,746,330	$ 21,143,643
				1,778,589	
					1,369,212
$ 161,150	0	$ 1,698,903	$ 2,381,068	$ 20,524,919	$ 22,512,855
		$ (938,589)	$ (1,725)	$ 1,524,319	
		(11,900)	11,900	12,900	
		8,008,825		(6,044,778)	
$ (25,595)	$ 14,262	224,943	2,773,578	(1,680,852)	
		1,566,537	(586,490)		$ (980,047)
$ (25,595)	$ 14,262	$ 8,849,816	$ 2,197,263	$ (6,188,411)	$ (980,047)
$ 341,640	$ 161,771	$ 9,639,420	$ 803,245	$ (4,343,316)	$ (2,633,971)
$ 6,483,175	$ 1,634,916	$ 2,094,453	$ 4,248,531	$ 4,348,588	$ 127,071,457
		30	(18,330)	(1,774)	
				3,590,680	
$ 6,483,175	$ 1,634,916	$ 2,094,483	$ 4,230,201	$ 7,937,494	$ 127,071,457
$ 6,824,815	$ 1,796,687	$ 11,733,903	$ 5,033,446	$ 3,594,178	$ 124,437,486

THE UNIVERSITY OF MONTANA
NOTES TO FINANCIAL STATEMENTS
June 30, 1994

1. Summary of Significant Accounting Policies

BASIS OF PRESENTATION

The University of Montana (the University) follows the standards of accounting and reporting as described by National College and University Business Officers (NACUBO). In accordance with Governmental Accounting Standard No. 15, "Governmental College and University Accounting and Reporting Models", the University has adopted the American Institute of Certified Public Accountants' (AICPA) "College Guide Model."

The University's financial statements are included as a component part of the State of Montana General Purpose Financial Statements which are prepared annually and presented in the Montana Comprehensive Annual Financial Report.

In January 1994, the Montana Board of Regents of Higher Education approved the restructuring of the Montana University System. As part of that restructuring, effective July 1, 1994, the University of Montana has administrative oversight for Montana College of Mineral Science and Technology; Western Montana College; and Butte, Helena, and Missoula Vocational Technical Centers. These financial statements exclude activity for these units which are reported separately by each campus.

BASIS OF ACCOUNTING

The financial statements of the University have been prepared on the accrual basis, except for depreciation accounting. The statement of current funds revenues, expenditures and other changes is a statement of financial activities related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenues and expenses.

To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as (1) expenditures, in the case of normal additions; (2) mandatory transfers, in the case of required provisions for debt amortization and interest, and property renewal and replacement; and (3) other transfers, for all other cases.

FUND ACCOUNTING

The financial records are maintained in accordance with the principles of fund accounting. These principles require that resources be classified for accounting and reporting purposes into fund groups according to the activities or objectives specified for the resources. Accounts are separately maintained for each fund. In the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Descriptions of these fund groups are as follows:

Current funds - Current funds are used primarily to account for transactions made in performing the primary and support objectives of the University: instruction, research, public service, academic support, student services, institutional support, operation and maintenance of plant,

scholarships and fellowships and auxiliary activities. Funds included in this classification consist of:

A. General operating funds - These funds are used to account for transactions relating to the educational and general operations of the University. The fund balance includes the unfunded liability of $5,061,201 for compensated absences and associated benefits.

B. Designated funds - These funds are used to account for educational-related and charge back activities which are essentially self-supporting. Resources in this fund group have been designated for specific purposes by the University.

C. Auxiliary enterprises funds - These funds are used to account for transactions of substantially self-supporting activities that primarily provide services for students, faculty and staff. Auxiliary enterprises include, but are not limited to, student housing and food services.

D. Restricted funds - These funds are used to account for current funds expended for operating purposes but restricted by donors or other outside agencies as to the how they may be spent. Revenues of the restricted funds are reported in the statement of current funds revenues, expenditures and other changes only to the extent expended for current operating purposes. The excess of receipts over or under expenditures is included as an addition or deduction to fund balances during the year.

Student loan funds - These funds are available as loans to students to aid in financing their education and are provided by federal, private and University sources. The majority of the funds are provided by the federal government.

Endowment and similar funds - These funds have specific donor or other outside agency restrictions prohibiting the expenditure of the principal. Generally, the principal is to be maintained in perpetuity and invested to produce income. The income may or may not be restricted as to use, at the donor's instruction.

Plant funds - These funds are used to account for the transactions relating to investment in University properties. Plant funds include:

A. Unexpended plant fund - comprised of amounts which have been appropriated or designated for land, improvements, buildings and equipment.

B. Renewal and replacement fund - comprised of amounts provided for renewal and replacement of properties.

C. Retirement of indebtedness fund - accumulates resources for interest and principal payments and other debt service charges relating to plant fund indebtedness.

D. Net investment in plant fund - represents the total of property, buildings, equipment and related liabilities.

Agency funds - These funds are used to account for assets held by the University as custodian or fiscal agent for others. Consequently, the transactions of this fund do not affect the statement of changes in fund balances.

2. Changes in Reporting

In fiscal year 1993, the University implemented a grant/contract leave policy whereby externally sponsored programs are assessed for employee's sick and annual leave accruals when earned. These monies are deposited into a grant leave pool where all sick and annual leave for employees on grants/contracts is charged when taken. In fiscal year 1994, both the grant/contract leave pool and the associated liability for compensated absences are reported in the designated fund. Previously, the liability for compensated absences had been reported in the general operating fund. This change had the effect of reducing the liability in the general operating fund and increasing the liability in the designated fund $669,007.

Previously, indirect costs recovered had not been reported on the "Statement of Changes in Fund Balance" in the restricted fund. In 1994, indirect costs recovered are correctly reported on this statement. This change had the effect of increasing both revenues and deductions in the restricted fund by $1,665,547 in fiscal year 1994.

3. Assets

Investments - Investments at June 30, 1994 consisted of the following:

	Investments Held by the State of Montana Board of Investments	Investments Held By Trustees
Cash Equivalents	$12,536,500	$ 2,180,487
Stocks and Bonds	284,181	
U.S. Government Securities		24,641,047
Certificate of Deposit		12,500
U.M. Foundation Investment Pool		549,978
Other		142,067
	$12,820,681	$27,526,079

Cash equivalents consist of cash invested in the State of Montana's Short Term Investment Pool and short-term, highly liquid investments with original maturities of three months or less. Common stock consists of cash pooled and invested in a common stock portfolio known as MONTCOMP (Montana Common Stock Pool).

The U.S. Government Securities are held by the First Trust Company of Montana in the University's name (risk category 1). The UM Foundation Pool consists of certain endowment funds held in a common investment pool administered by the UM Foundation. The Other investment consists of real property held by the UM Foundation on behalf of the University for the purpose of providing funds for academic scholarships.

Investments are carried at cost or, in the case of gifts, fair market value at date of receipt. The market value of cash equivalents and investments held by the State of Montana Board of Investments was $13,377,751. The market value of cash equivalents and investments held by trustees was $31,145,058.

Inventories - Inventories are comprised of consumable supplies, food items, and items held for resale or recharge within the University. The larger inventories are valued using the moving average method. Other inventories are valued using first in-first out or specific identification methods.

Loans Receivable - Loans receivable from students bear interest at rates primarily ranging from 0 to 12 percent and are generally repayable in installments to the University over a 30-day to ten-year period beginning zero to twelve months from the date of separation from the University (depending on loan type).

Plant Assets - Plant assets are stated at cost when purchased or constructed or, if acquired by gift, at the estimated fair market value at date of gift. Intangible assets consist entirely of computer software which is amortized on a straight-line method over a five-year period. The value reported is net of accumulated amortization. Equipment acquired with restricted grants and contracts are recorded as an addition to investment in plant at the time of purchase. On certain grants and contracts, title to equipment purchased is vested with the grantor or contractor until completion of the project at which time the equipment may revert to the University.

Governmental Accounting Standard No. 8, "Applicability of FASB Statement No. 93, Recognition of Depreciation by Not-for-Profit Organizations, to Certain State and Local Governmental Entities," provides that governmental colleges and universities should not change their accounting and reporting for depreciation of capital assets as a result of FASB Statement No. 93. Accordingly, the University does not record depreciation of plant assets.

Property, equipment and other assets at June 30, 1994, consisted of the following:

Intangible Assets	$ 595,769
Buildings and Improvements	82,759,888
Furniture and Equipment	24,895,421
Library Books and Materials	26,192,810
Land/Land Improvements	8,750,768
Construction-in-Progress	4,648,461
Museum and Art Collection	4,572,821
Livestock	140,530
Total	$152,556,468

In 1881, the University became the beneficiary of a 46,709 acre land grant. Under provisions of the grant, proceeds from the sale of land and land assets must be reinvested and constitute, along with the balance of unsold land, a perpetual trust fund. The grant is administered as a trust by the State Land Board which holds title and has the authority to direct, control, lease, exchange and sell these lands. The University, as a beneficiary, does not have title to the assets resulting from the grant, only a right to the earnings generated. The University's share of the trust earnings, which totaled $185,741 in fiscal year ended June 30, 1994, are reported as plant fund revenue.

4. Liabilities

Capital Leases - The University is obligated under equipment capital leases expiring in various years through 1999. Liabilities are recorded at the total amount of principal payments scheduled under the lease contract. Property held under capital leases for fiscal years ending June 30, 1993 and June 30, 1994 totalled $2,114,088 and $2,487,222 respectively.

Minimum future lease payments under capital leases for the next five years are $1,088,035 in fiscal year 1995, $983,688 in fiscal year 1996, $140,472 in fiscal year 1997, $79,901 in fiscal year 1998 and $23,942 in fiscal year 1999. Interest over the five fiscal years 1995 through 1999 is $130,672. The outstanding principal on the lease payments is $2,185,367. Interest is stated in the contracts or based on the lessor's implicit rate of return. The University does not sublease its equipment under capital lease agreements.

Mortgages - Four residential properties were purchased, two in 1992 and two in 1986, by the University of Montana as part of its long-range planning program. Maturity dates on all four mortgages are 2011. Projected annual principal payments on these properties follow:

1995	1996	1997	1998	1999+
$5,716	$6,126	$6,564	$7,035	$155,957

Bonds Payable - On November 10, 1993, the University issued $47,095,000 in Series A 1993 Revenue bonds with interest rates ranging from 2.3 to 5.0 percent to advance refund $15,383,643 of outstanding 1985/1987 Series A and B Revenue bonds with interest rates ranging from 6.0 to 9.75 percent. Proceeds of $21,254,665, together with certain funds and monies of the University, were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payment on the 1985/1987 Series A and B bonds. As a result, the 1985/1987 Series A and B bonds are considered to be legally defeased and the liability for those bonds has been removed from the University's financial records.

The University advance refunded the 1985/87 Series bonds to reduce its total debt service payments over the next 15 years by $3,067,520 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of $2,100,944.

The balance of the proceeds together with certain funds and monies of the University (after payment of $1,018,731 in underwriting fees, insurance, surety bonds, and other costs of issuance) provided funds for the acquisition, construction, repair, replacement, renovation, and improvement of certain facilities and properties at the University.

Revenue Bonds Payable - As of June 30, 1994, annual principal payments are as follows:

Series A 1993

Fiscal Year	Interest Rate	Principal
1995	2.5 - 3.15	$ 1,130,000
1996	3.15 - 3.4	1,440,000
1997	3.4 - 3.6	1,490,000
1998	3.6 - 3.75	1,545,000
1999-2016	3.75 - 5.0	41,030,000
	Total	$46,635,000
	Less unamortized discount	(1,256,203)
	Total Bonds Payable	$45,378,797

In prior years, the University defeased certain bond issues by placing proceeds of new bonds in an irrevocable trust. The proceeds, together with interest earned thereon, will be sufficient for future debt service payments on the refunded issues. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's financial statements. At June 30, 1994 $8,715,000 of bonds outstanding are considered defeased.

Compensated Absences - Eligible University employees earn 8 hours sick and 10 hours annual leave for each month worked. The accrual rate for annual leave increases with longevity. Eligible employees may accumulate annual leave up to twice their annual accrual. Sick leave may accumulate without limitation. Twenty-five percent of accumulated sick leave earned after July 1, 1971 and 100 percent of annual leave vests to each employee as earned and, if not used during employment, is paid upon termination. Sick and annual leave expense includes the decrease of $119,096 in estimated compensated absences liability.

5. Commitments

The accrual basis of accounting provides that expenditures include only amounts associated with goods and services received and that liabilities include only the unpaid amounts associated with such expenditures. Accordingly, approximately $212,858 of outstanding purchase orders and purchase commitments at June 30, 1994 are not reported in the accompanying financial statements.

In May 1994, the Board of Regents of the Montana University System authorized the University to proceed with the issuance of Series 1994 Bonds of which $1,000,000 will be used to renovate facilities at the Student Health Service and $500,000 as supplemental funds for the previously authorized Family Housing complex.

As of June 30, 1994, The University of Montana had entered into a master agreement with SCT Software and Resource Management Corporation which allows the purchase of any software systems available through SCT. At September 30, 1994 orders against this master agreement were issued for a human resource, a voice response, and an alumni development system totaling approximately $439,266.

As of June 30 1994, the University has initiated construction of the following major capital projects.

Project	Total Amount Authorized	Total Expenditures as of 6/30/94	Funding Source
Davidson Honors College	$ 2,000,000	$ 57,481	Private Donation
Business Administration Building	15,266,000	1,083,744	Private Donation & State Appropriated Funds
University Center Renovation	4,000,000	86,333	1993 A Revenue Bond
Residence Halls Renovation	7,000,000	2,355	1993 A Revenue Bond Proceeds
Parking Lots Renovation	800,000	32,424	1993 A Revenue Bond Proceeds
Family Housing Apartments	7,272,000	192,863	1993 A Revenue Bond
Parking Lot Expansion	1,100,000	95,110	1993 A Revenue Bond Proceeds
Pantzer Hall Construction	8,000,000	910,867	1993 A Revenue Bond Proceeds
Family Housing Community Cntr	250,000	25,716	Auxiliaries
TOTAL	$45,688,000	$2,486,893	

6. Federal Aid Fees

The University assesses a fee to cover administrative costs of the Perkins/National Direct Student Loan Fund (NDSL) and federal student aid programs. Federal regulations permit the entire fee to be charged to a single program or distributed equally, or unequally, to the various programs at the University's option. Administrative costs charged to federal financial aid programs in fiscal years ending June 30, 1993 and June 30, 1994 were $128,327 and $167,843 respectively.

7. Retirement Plans

Full-time employees of The University of Montana are all members of the Public Employees Retirement System (PERS), Teachers' Retirement System (TRS), or the Optional Retirement Program (ORP) as described below. Only faculty and administrators with contracts under the authority of the Board of Regents are enrolled under TRS or ORP. Beginning July 1, 1993 legislation required all newly hired faculty and administrators with contracts under the authority of the Board of Regents to enroll in ORP.

Pension Benefit Obligation is not provided on an agency basis, but is available on a statewide basis from the Montana Retirement Systems for PERS and TRS or from the Teachers' Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF) for ORP.

PERS - This mandatory system established in 1945 and governed by Title 19, chapter 3, MCA, provides retirement services to substantially all public employees. Benefit eligibility is age 60 with at least 5 years of service; age 65 regardless of service; or 30 years of service regardless of age. Reduced benefits may be taken with 25 years of service or at age 50 with at least 5 years of service. Beginning January 1, 1989, monthly retirement benefits are determined by taking 1/56 times the number of years of service times the final average salary. Members' rights become vested after 5 years of service.

TRS - This system established in 1937 and governed by Title 20, chapter 20, MCA, provides retirement services to all persons employed as teachers or professional staff of any public elementary or secondary school, vocational-technical center or unit of the University System. Eligibility is met with a minimum of 25 years of service or age 60 with 5 years of creditable service. The formula for accrual benefits is 1/60 times creditable service times the average final compensation. Rights are vested after 5 years of creditable service. Vested employees may retire at or after age 50 and receive reduced retirement benefits.

ORP - ORP was established in 1988 and is underwritten by the Teachers' Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF). The ORP is a defined contribution plan. The benefits at retirement depend upon the amount of contributions, amounts of investment gains and losses and the employee's life expectancy at retirement. Under the ORP, each employee enters into an individual contract with TIAA-CREF. The University of Montana records employee/employer contributions, and remits monies to TIAA-CREF. Individuals are immediately vested with contributions.

Contributions to these systems for fiscal year 1994 are as follows:

The University of Montana
For Fiscal Year 1994

	PERS	TRS	ORP (TIAA-CREF)
Covered Payroll	$17,851,879	$18,442,180	$ 9,037,486
Total Payroll	56,391,476	56,391,476	56,391,476
Employer Contributions	1,196,032	1,376,623	447,899
Percent of Covered Payroll	6.70%	7.465%*	4.956%
Employee Contributions	1,196,033	1,299,067	636,600
Percent of Covered Payroll	6.70%	7.044%	7.044%

In addition, a total of $226,227 or 2.503% was contributed to TRS from ORP employer contributions to amortize past service unfunded liability in accordance with Title 19, chapter 21, MCA.

* Average - (The TRS employer contribution rate was 7.459% from July 1, 1993 to December 31, 1993 and was 7.47% from January 1, 1994 to June 30, 1994.)

8. Contingencies

At present there are legal cases in conciliation, negotiation and pending and/or potential litigation. Due to the nature of these cases, the actual amount of liability, if any, is difficult to estimate at this point.

Funds provided to the University and accounted for in the Current Restricted funds and Student Loan funds are subject to review and audit by cognizant granting agencies. The University does not expect any material adjustments or repayments to result from such audits.

Although the University is exempt from federal income tax as an instrumentality of the State of Montana, certain income generated may be considered unrelated business income by the Internal Revenue Service. The Montana University System files appropriate tax returns with the IRS to report such income. Because the tax liability for the System as a whole is not material, no provision is recorded in the accompanying financial statement.

9. Prior Year Adjustment - Revenue Bonds

In connection with the issuance of the 1993 Revenue bonds, it was determined that when completing the advance refunding in 1987, the University prematurely recorded a loss which shouldn't have been measured or recorded until the cross-over date in 1996. The beginning fund balance has been restated by $3,590,680 representing the correction of the transaction which was prematurely recorded.

10. Affiliated Organizations

The University of Montana is a component unit of the State of Montana. These financial statements include only the activities, funds, and accounts of the University. Private nonprofit organizations affiliated with the university include The University of Montana Foundation (the Foundation), the Grizzly Athletic Association, and the University of Montana Alumni Association. The Foundation and associations operate exclusively for the purposes of encouraging, promoting, and supporting educational programs, research, scholarly pursuits, and athletics at or in connection with the University. In fiscal year 1994, $3,432,411 was transferred to/expended for the University for scholarships and academic/institutional support from the Foundation; and $415,000 was transferred for scholarships from the Grizzly Athletic Association. In exchange, the University provides the Foundation with office space and an annually contracted fee ($141,000 in fiscal year 1994); and the associations with office space, staff, and some related office expenses.

University Response

The University of Montana

Office of the President
The University of Montana
Missoula, Montana 59812-1291
(406) 243-2311, FAX (406) 243-2797

13 January 1995

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Mr. Scott A. Seacat
Legislative Auditor
Office of the Legislative Auditor
Room 135, State Capitol
Helena, MT 59620

Dear Mr. Seacat:

We thank the Office of the Legislative Audit staff for their assistance and work performed for The University of Montana - Missoula Financial Compliance Audit for the Fiscal Year ending, 30 June 1994. We value the enthusiastic spirit of the audit team and appreciate their assistance and advice.

We make significant effort to improve our systems and procedures where required while balancing the need for efficiencies. Efforts to review controls will continue because of the importance we assign to accountability and the management of State assets.

Sincerely,

George M. Dennison
President

Enclosure

c: J. Baker, Commissioner of Higher Education
K. Burgmeier, Director, Internal Audit
J. Todd, Vice President for Administration and Finance

An Equal Opportunity University